

SWC Submission #: **SWCCE-0071**

STATE WATER CONTRACTORS

1121 L Street, Suite 1050 | Sacramento, CA 95814-3944

(916) 447-7357 | www.swc.org

Draft-Subject to Review, Draft No. 4

December 10, 2013, 4:12 PM

Page 1 of 15

To: Department of Water Resources
FROM: State Water Contractors¹
DATE: December 17, 2013
SUBJECT: Fifth Offer for Extension of the State Water Project² Water Supply Contracts

This document contains a proposed Statement of Principles that could provide the foundation for an agreement among the State Water Project Contractors³ (Contractors) and the Department of Water Resources (DWR) that will extend the contracts.

Summary To-Date of Contract Extension Negotiation Proposed Offers

May 1, 2013	Contractors' 1st Offer (Initial Offer)
May 1, 2013	DWR's 1st Offer (Initial Offer)
June 26, 2013	Contractors' 2nd Offer
July 10, 2013	DWR's 2nd Offer
August 7, 2013	Contractors' 3rd Offer
September 4, 2013	DWR's 3rd Offer
September 17, 2013	Contractors' 4th Offer
October 2, 2013	DWR's 4th Offer
October 16, 2013	Contractors' 1st Tentative Offer
October 23, 2013	DWR's 1st Tentative Offer
December 17, 2013	Contractors' 5th Offer

¹ The SWC organization is a nonprofit mutual benefit corporation that represents and protects the common interests of its 27 member public agencies in the vital water supplies provided by California's State Water Project ("SWP"). Each of the SWC member agencies holds a contract with the California Department of Water Resources ("DWR") to receive water supplies from the SWP. Collectively, the SWC members deliver water to more than 25 million residents throughout the state and more than 750,000 acres of agricultural lands. SWP water is served from the San Francisco Bay Area, to the San Joaquin Valley and the Central Coast, to Southern California. The SWC's members are: Alameda County Flood Control and Water Conservation District Zone 7; Alameda County Water District; Antelope Valley-East Kern Water Agency; Casitas Municipal Water District; Castaic Lake Water Agency; Central Coastal Water Authority; City of Yuba City; Coachella Valley Water District; County of Kings; Crestline-Lake Arrowhead Water Agency; Desert Water Agency; Dudley Ridge Water District; Empire-West Side Irrigation District; Kern County Water Agency; Littlerock Creek Irrigation District; Metropolitan Water District of Southern California; Mojave Water Agency; Napa County Flood Control and Water Conservation District; Oak Flat Water District; Palmdale Water District; San Bernardino Valley Municipal Water District; San Gabriel Valley Municipal Water District; San Geronio Pass Water Agency; San Luis Obispo County Flood Control & Water Conservation District; Santa Clara Valley Water District; Solano County Water Agency; and Tulare Lake Basin Water Storage District.

² The State Water Project is the name commonly used to refer to the State Water Resources Development System (Water Code Section 12931)

³ The State Water Project Contractors includes the SWC organization's 27 member public agencies, Butte County Water and Resource Conservation, and Plumas County Flood Control and Water Conservation District.



Outline of the Contractors' Proposed Offer

I.	Objective 1	Term of Contract
II.	Objective 2A	Reserves
III.	Objective 2B	Accounts (SSA, SRA, FCA)
IV.	Objective 2C	Flow of Funds
V.	Objective 2D	Financial Management
VI.	Objective 2E	Supplemental Billing
VII.	Objective 3A	Simplification of Billing
VIII.	Objective 3B	RAS
IX.	Objective 3C	1(hh)
X.	Objective 3D	Billing Authorization
XI.	Objective 4	BDCP and DHCCP Participation

STATEMENT OF PRINCIPLES BY THE SWP CONTRACTORS

I. OBJECTIVE 1: TERM OF CONTRACT

A. Water Supply Contract Term Extension

1. Extend term of the SWP water supply contracts by 75 years from December 31, 2035 to December 31, 2110.



II. OBJECTIVE 2A: RESERVES

A. General Operating Account (GOA)

1. **Uses of GOA** - Cash flow deficiencies resulting from chargeable water supply purposes and during a SWRDS emergency for any SWRDS purpose.
2. **SWRDS Emergency** - An immediate, urgent, critical, unexpected, or impending situation that may cause injury, loss of life, damage to the property, and/or interference with the normal activities of the State Water Resources Development System which requires immediate attention and remedial action.
3. **Initial Cap** - Increase the authorized General Operating Account (GOA) balance from \$22.7 million to \$150 million pursuant to Article 51(a)(3).
4. **Cap Adjustment Determination** - Every five years there shall be a business case analysis on the GOA authorized cap including an evaluation of the cap and business risks associated with SWRDS cash flow provided to the SWRDS Finance Committee for recommendation to the DWR Director regarding a GOA cap adjustment. If there is a decrease in the cap (but the cap shall not be lower than \$150 million), the excess funds would be transferred to the SRA.
5. **Cap Adjustment Funding Source (Pre-2035)** - Shall be 51(e) revenues.
6. **Cap Adjustment Funding Source (Post-2035)** - Shall be the Director's discretion to use the investment earnings retained in GOA, the funds within the SRA and SSA.
7. **Rate of Funding for Cap** - Limitation on the amount (\$2 million per year) and timing of additional contributions to the GOA contained in Article 51(e)(3)(v) will be deleted. DWR will be able to use any amount of available 51(e) revenues to increase funds in the GOA up to the authorized maximum GOA funding level and such funding shall be subordinate to the annual rate management reductions to the water contractors.
8. **GOA Replenishment** - Replenishment of the use of GOA funds will come from charges to the water contractors to the extent the expended funds were spent on chargeable water supply purposes and from the SSA for GOA funds spent on non-chargeable expenditures.
9. **GOA Reporting** - DWR will prepare regular reports on the GOA which will be shared with the water contractors through the SWRDS Finance Committee or a technical committee as directed by the SWRDS Finance Committee.
10. **GOA Notice of Use** - Anytime the GOA is used, DWR will send a Notice to



SWC Submission #: **SWCCE-0071**

STATE WATER CONTRACTORS

1121 L Street, Suite 1050 | Sacramento, CA 95814-3944

(916) 447-7357 | www.swc.org

Draft-Subject to Review, Draft No. 4

December 10, 2013, 4:12 PM

Page 4 of 15

Contractors, notifying Contractors of the event.

11. GOA Investment Earnings - shall be used as follows:

- a) Funding GOA to authorized GOA funding level;
- b) Transferred, at the discretion of the Director, to the SWRDS Support Account (SSA) and/or to the SWRDS Reinvestment Account (SRA).



III. OBJECTIVE 2B: ACCOUNTS (SSA, SRA, FCA)

A. SWRDS Reinvestment Account (SRA)

1. **Effective Date of SRA** - The SRA shall be established and take effect upon the effective date of the contract extension amendment.
2. **SRA Uses** - The primary purpose is to provide a SWRDS revenue stream by investing SRA funds in SWRDS facilities and programs.
3. **Funding Source** - At the discretion of the Director, the balance of Article 51(e)(1)(iii) revenues collected by the State pre-2035.
4. **Cap on SRA** - There will be no Cap or Cap Adjustments to the SRA.
5. **SRA Replenishment** - Does not apply given the nature of this account is to preserve and invest the SRA balance of Article 51(e)(1)(iii) collected by the State.
6. **SRA Investments** - At the discretion of the Director, authorized SRA investments shall be as follows:
 - a) Investment in SWRDS capital facilities, recovered at the prevailing municipal bond market rates corresponding to the SWRDS bond rating at the time of financing, in maturity ranges that may extend 10 to 50 years;
 - b) Temporary financing in lieu of the SWRDS commercial paper program; and
 - c) Allowable investment instruments per state government code for the SWRDS.
7. **Use of SRA Investment Earnings** - At the discretion of the Director, the SRA funds, including but not limited to investment earnings, shall be used to:
 - a) Provide a source of replenishment funds to the SSA;
 - b) Provide a source of funds to be held in the SRA for investment purposes; and
 - c) Provide a funding source for funding level adjustments to the GOA.
8. **SRA Review** - The contractors are to be consulted through the SWRDS Finance Committee about the investments and activities to be funded from the SRA.
9. **SRA Reporting** - DWR will prepare regular reports on the SRA which will be shared with the water contractors through the SWRDS Finance



Committee or a technical committee as directed by the SWRDS Finance Committee.

B. SWRDS Support Account (SSA)

1. **Effective Date of SSA** - The SSA shall be established and take effect upon the effective date of the contract extension amendment.
2. **SSA Uses** - The purpose of the SSA shall be to provide a source of funds to pay for costs of the System where there are no funds or revenue sources available to pay for such costs. These costs could be for any legally permissible activity for SWRDS which lacks a source of funding temporary or permanently.
 - a) The SSA shall be the sole source of funding, accounting, and reporting for all legally permissible activity for SWRDS expenditures without a source of revenue.
 - b) If reimbursement or a source of revenue is received after the expenditure is incurred this revenue should be included in the SSA.
3. **SSA Review** - The contractors are to be consulted through the SWRDS Finance Committee about the projects and activities to be funded from the SSA.
4. **SSA Reporting** - DWR will prepare regular reports on the SSA which will be shared with the water contractors through the SWRDS Finance Committee or a technical committee as directed by the SWRDS Finance Committee.
5. **Initial Cap** - \$60 million
6. **Cap Adjustment Determination** - No Adjustments, but this is subject to the review and recommendation of the SWRDS Finance Committee.
7. **Funding Source for Initial Funding** - 51(e) revenues and/or the remaining balance of the Facilities Capital Account (FCA) once the FCA is closed.
8. **SSA Replenishment** - Shall be accomplished through 1) reimbursements received for expenditures made from the SSA; 2) at the discretion of the Director, transfers from the SRA and/or from the GOA's available investment earnings, and 3) interest and other investment income retained in the SSA.
9. **SSA Interest Earnings** – At the Director's discretion, retained in the SSA to reduce the annual SRA replenishment requirement.
10. **SSA Backstop** - The contract will prohibit the Department from billing the Contractors for any SSA funding or backstop.



SWC Submission #: **SWCCE-0071**

STATE WATER CONTRACTORS

1121 L Street, Suite 1050 | Sacramento, CA 95814-3944

(916) 447-7357 | www.swc.org

Draft-Subject to Review, Draft No. 4

December 10, 2013, 4:12 PM

Page 7 of 15

C. State Water Facilities Capital Account (FCA)

1. The State Water Facilities Capital Account (FCA) pursuant to Article 51(c)(2)(v) shall be closed and the balance of the account transferred to the State Water Resources Development System Support Account (SSA).



IV. OBJECTIVE 2C: FLOW OF FUNDS

A. Maintain the Monterey Amendment Article 51 Flow of Funds with the following edits/additions:

1. Increase Annual Rate Reductions to \$64 million.
2. To facilitate reporting, and prioritize funding and replenishment of the GOA, SSA, and SRA, following the \$64 million in annual rate reductions, the Director has the discretion to allocate the balance of 51(e) revenues determine in Article 51(e)(1)(ii) only into the following three accounts:
 - a) General Operating Account (GOA)
 - b) SWRDS Support Account (SSA)
 - c) SWRDS Reinvestment Account (SRA)
3. Contractors shall agree to forego additional rate management reductions including additional rate management reductions to make up for deficiencies in past projected rate management reductions or to provide any additional rate management reductions above \$64 million annually pursuant to Article 51(e)(3)(i)(ii)(iii)(iv)(vi).
4. Contractors shall agree to waive and release certain claims that were reserved in the Tolling and Waiver Agreement executed in 2007 relating to:
 - a) The use of bond proceeds to pay for recreation costs and the related adjustments made to the contractors bills;
 - b) Accounting for the costs of the San Joaquin Drainage Program and;
 - c) The adjustment of water supply responsibility for certain Delta Facilities (see Section 1(b)(2), (3), (4) and (5) of the Tolling and Waiver Agreement).
5. Contractors shall agree to waive and release other issues relate to:
 - a) DWR's recent adjustment of the water contractors' responsibility for facilities south of Dos Amigos and;
 - b) DWR's treatment of energy from off-aqueduct power facilities.



V. OBJECTIVE 2D: FINANCIAL MANAGEMENT

A. State Water Resources Development System Finance Committee

1. Immediately, the Department of Water Resources shall establish a joint Department of Water Resources and Contractor finance committee (Committee).
2. The membership of the Committee shall include both representatives from the Department of Water Resources and representatives from the contractors.
3. The primary purpose of the Committee shall be to make recommendations to the Director of the Department of Water Resources concerning the finances of the State Water Resources Development System.
4. The water supply contract shall include a Committee charter, mutually agreeable to the Department of Water Resources and the Contractors, describing the scope of the Committee.

B. Single Point of Financial Authority for SWRDS

1. DWR shall create and fill a position, reporting directly to the SWP Deputy Director, with the authority and responsibility to manage or to act as the designated SWP Deputy Director on the finances of the State Water Resource Development System. The responsibilities of this position shall include, but not be limited to, the following:
 - a) Responsible for presenting and reporting accurate and timely SWRDS actual and forecasted financial information to facilitate management decisions by both DWR and the State Water Project Contractors; and
 - b) Responsible for the oversight of the SWRDS current and future financial condition including water sales, financial and managerial accounting, debt financing, capital infrastructure, energy portfolios, financial policies, and treasury and investments management.



SWC Submission #: **SWCCE-0071**

STATE WATER CONTRACTORS

1121 L Street, Suite 1050 | Sacramento, CA 95814-3944

(916) 447-7357 | www.swc.org

Draft-Subject to Review, Draft No. 4

December 10, 2013, 4:12 PM

Page 10 of 15

VI. OBJECTIVE 2E: SUPPLEMENTAL BILLING

A. Supplemental Billing

1. Eliminate the supplemental billing provisions authorized under Article 51(c)(4).



VII.OBJECTIVE 3A: SIMPLIFICATION OF BILLING

A. Implement the Freeze-Go Billing Methodology

1. Methodology will freeze all costs incurred prior to January 1, 2016, and continue repayment consistent with current contract terms.
2. Methodology will recover all costs incurred after December 31, 2015, by converting and authorizing repayment on a Pay-As-You-Go methodology.
3. Amend the definition of the Project Repayment Period to apply only to those costs incurred prior to January 1, 2016.
4. The term of the Project Repayment Period, January 1, 1961 through December 31, 2035, will remain the same.
5. The Water Systems Revenue Bond Surcharge will apply only to those costs incurred prior to January 1, 2016 and will terminate at the completion of the Project Repayment Period.
6. Amend the definition of the Project Interest Rate to apply only to those costs incurred prior to January 1, 2016. The Project Interest Rate will remain 4.610%.

B. Defining the Pay-As-You-Go Repayment of Costs Incurred Post-2015

1. The annual cost recovery within a bill year for estimated annual operation, maintenance, power, and replacement costs for project conservation facilities.
2. The annual recovery of actual debt service, created by SWRDS financing activities, within a bill year for financed capital transportation and conservation facilities.

C. Defining the Pay-As-You-Go Repayment of Actual Debt Service from SWRDS Financing Post-2015 Capital Costs

1. Authorize SWRDS to finance 100% of all capital costs.
2. Authorize SWRDS to use various methods of financing including Water System Revenue Bonds and SRA, with each method providing an annual repayment schedule which includes a principal and interest component over the life of the financing.
3. Authorize SWRDS to bill an amount that is equal to the accumulated annual debt service payments due per the debt service schedules or matching dollar for dollar the SWRDS annual debt service payments including the bond cover requirements, providing 100% capital cost recovery at the financed interest rate over the term of the financing while meeting the additional bond debt cover requirements.



SWC Submission #: **SWCCE-0071**

STATE WATER CONTRACTORS

1121 L Street, Suite 1050 | Sacramento, CA 95814-3944

(916) 447-7357 | www.swc.org

Draft-Subject to Review, Draft No. 4

December 10, 2013, 4:12 PM

Page 12 of 15

VIII. OBJECTIVE 3B: REPLACEMENT ACCOUNTING SYSTEM (RAS)

A. Elimination of the Replacement Accounting System (RAS)

1. Eliminate the Replacement Accounting System (RAS) for Transportation and Conservation Facilities with the intent to have replacement costs treated as a minimum or capital cost.
2. The unencumbered cash balance of the RAS funds are to be returned to the SWP Contractors using the RAS allocation methodology.



IX. OBJECTIVE 3C: ARTICLE 1 (hh)

A. Expanding Water System Facilities Authorized to be Financed by Water System Revenue Bonds Under Article 1(hh)

1. Eliminate the January 1, 1987 date for existing facilities within Article 1(hh)(8); provision to now read as follows, “ Finance all repairs, additions, and betterments to conservation or transportation facilities and to all other facilities described in this sub-article (hh) except for item (5) the land acquisition prior to December 31, 1995 for the Kern Fan Element of the Kern Water Bank.”
2. Add provision to Expand 1(hh) to include “Finance all other capital projects (i.e. projects and programs for which revenue bonds can be sold) mutually agreed upon in writing by DWR and 80% of the affected Contractors, provided that the approving Contractors' Table A amounts exceed 80% of the Table A amounts representing all affected Contractors”. "Affected Contractors" mean those contractors which would be obligated to pay a share of the debt service for such project.



SWC Submission #: **SWCCE-0071**

STATE WATER CONTRACTORS

1121 L Street, Suite 1050 | Sacramento, CA 95814-3944

(916) 447-7357 | www.swc.org

Draft-Subject to Review, Draft No. 4

December 10, 2013, 4:12 PM

Page 14 of 15

X. OBJECTIVE 3D: BILLING AUTHORIZATION

A. Contractors' Liability to the Return to the State

1. The Department shall not charge the SWP Contractors for non-water supply costs or reallocate non-water supply costs to water supply as the result of non-recovery from a non-water supply beneficiary. **(THIS IS A PLACEHOLDER)**



SWC Submission #: **SWCCE-0071**

STATE WATER CONTRACTORS

1121 L Street, Suite 1050 | Sacramento, CA 95814-3944

(916) 447-7357 | www.swc.org

Draft-Subject to Review, Draft No. 4

December 10, 2013, 4:12 PM

Page 15 of 15

XI. OBJECTIVE 4: BDCP AND DHCCP PARTICIPATION